Secretaries' Innovation Group Proposals to Empower States

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Policy Direction for Options

- State control of FUTA and SUTA Tax Revenue and Employment Security Appropriations
- Flexibility in the use of Funds for UI Benefits and/or Employment Services
- Focus on Reemployment of UI Claimants and Integrity
- Support for experience rating and relationship between employer contributions and unemployment compensation paid and charged to employers.

Option 1
States to Own and Manage Their Own Statewide UI System

•FUTA Revenue Annually Exceeds Amounts Appropriated by Congress for Employment Security.

• FY 2016	FUTA	$5.98 Billion	Outlays	$3.92 Billion
• FY 2017	FUTA	$6.10 Billion	Outlays	$3.89 Billion
• FY 2018*	FUTA	$6.21 Billion	Outlays	$3.81 Billion

•SUTA Collections Exceeding Benefit Payments

• FY 2016	SUTA	$41.46 Billion	Benefits	$32.24 Billion
• FY 2017	SUTA	$41.42 Billion	Benefits	$32.09 Billion
• FY 2018*	SUTA	$41.66 Billion	Benefits	$32.24 Billion

* As projected in the US DOL UI Outlook updated with the President’s FY 2018 proposed budget.

Option 1
States to Own and Manage Their Own Statewide UI System

- States collect SUTA and FUTA and retain funds in state custodial accounts or designated accounts in the US Treasury
- Identify small percentage as necessary to pay for federal oversight
- Transition provisions to assure that current UI applications not impacted.
- States retain the option of administering EB, EUC and other federal programs.
- State UI loan obligations remain.
- Follows general outline of "New Balance" proposals of late 1990s and early 2000s

Option 2
Expand Reimbursing Option to Any Employer Within the State

- Permits contributing employers to elect reimbursing status
- Similar to treatment of Indian Tribes as employers
- Aligns costs of benefits with employer payment obligations
- Improves incentives to return claimants to work
- Reduces the impact of socialized charges to employer accounts
- Requires reimbursement election for 5 Years to avoid “gaming”
- Employers to continue to pay FUTA tax to assure FUTA funding for all states
- Builds in performance review to evaluate improvement in return to work

Option 3
Dedicated Set Aside of Small Portion of SUTA tax for Targeted Efforts

•Permits states to use up to 2% of SUTA revenue for targeted efforts to improve reemployment and reduce overpayments.

•Increases state flexibility in use of funds without requiring but permitting states to require “merit staffing”.

•Similar to “Reed Act” distribution in 2002

•Funds maintained in state trust funds but available for state administration of targeted efforts

•At 2% the amount identified would be significant for targeted efforts but would not take away the primary purpose of UI trust fund dollars to be used to pay UI benefits.

•Recognizes that in states with healthy trust funds SUTA funds may be used more effectively for reemployment and integrity efforts and that these efforts would otherwise would not likely be funded in sufficient amounts through the normal federal appropriations process.

The Time for Options to Improve the UI Program is Now

After more than 80 years, it is time to consider innovations in the UI program.

- As states finally repay UI loans from the Great Recession and the economy is less volatile, there is an opportunity to implement options to consider that are better aligned with changes since 1935.
- Increased flexibility in administration, assurance of adequate funding, and a focus on performance.
- Improved methods to connect individuals with jobs.
- Improved methods to assist employers in filling their workforce needs
- Assuring program integrity.
- State workforce agency administrators are in the best position to lead.